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In the course of 1948, following the January 1948 bank nationalization law, the entire banking power in Hungary was concentrated in the National Bank. With a few exceptions, to be enumerated later, all other Hungarian banks were liquidated, sold, or merged. The main element of the power of the National Bank is the fact that it controls all credit, partly through subsidiaries, and that it controls the monetary aspects of the foreign exchange policy. Hungary has the so-called "one account system" for each nationalized business or corporation. According to this system, each company can have only one account and that is with the National Bank. The company cannot dispose of any money without the consent of the National Bank. The National Bank withholds approval for expenditures if said expenditures are not in accord with the so-called "finance plan" of the company approved in advance by the National Planning Bureau which is the subsidiary of the Supreme Economic Council. All collections also go into the "one account". The National Bank has the power to give rediscount facilities to all the remaining banking institutions, but in practice it has ceded its credit-giving functions only to the National Cooperative Credit Institution and its branches.

The National Cooperative Credit Institution acts as the parent bank for a series of agricultural cooperative banks, each of which can offer limited credit facilities to artisans, small merchants, and cooperatives.

The National Bank has transferred all private banking functions to the National Savings Bank. The bank handles all savings and other allowed private accounts. On 1 March 1949 it was merged with the old established Postal Savings Bank.

a. This bank has been stripped of all initiative in foreign trade but has been given exclusive right to handle the technical side of financing of foreign trade. The National Bank has ceded to the Commercial Bank the right of handling the blocked accounts of Hungarian nationals abroad.

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CENTRAL INTELLIGENCE AGENCY

25X1A

- 2 -

and also the right of handling the accounts of persons authorized to possess foreign exchange. In effect the Commercial Bank is a branch office of the National Bank, dealing with foreign trade finances. Since March 1948 it has been the only bank authorized to handle foreign exchange, although some of the banks in liquidation did not close out their foreign exchange accounts completely until August 1948.

- b. The National Commercial Bank has absorbed the so-called "Bank of the Danube Valley", which was founded in 1945 by the Communist Party of Hungary. The shares were in the possession of the State. In April 1948 the government made an arrangement with the Commercial Bank by which the Commercial Bank purchased all the shares of the "Bank of the Danube Valley" for a nominal price. The government will get all surplus profits accruing from the liquidation of the bank. This does not constitute a merger of the two banks. The "Bank of the Danube Valley" had always had a large amount of ready cash and freely gave credit for exorbitant rates, up to 30 percent, while other banks hesitated or were unable to give credit. This was particularly true after the currency reform when all other banks became dependent on the rediscount facilities of the National Bank, and were limited to an interest charge of six percent. In effect the "Bank of the Danube Valley" was a money-lending agency and many of its deals were extremely corrupt. For a time the bank brought in considerable profit to the Communist Party, but after the Bank Nationalization Act of 1 January 1948, the bank was no longer essential to the Party since in effect all banking facilities have come under Party control through domination of the government. The personnel of the "Bank of the Danube Valley" was distributed among the remaining banking institutions, but the majority went to the Commercial Bank, including Director Havas, mentioned below.
- c. The titular director of the Commercial Bank is Taos, a former Social Democrat who has been director for many years; he is about 65 years old. The actual head is the deputy manager Havas, described as a good Communist but a poor banker.

5. Personalities: Sulyok and Friss

The new Hungarian Under Secretary of State for Finances, Bela Sulyok, appointed in late February 1949, is one of the strongest financial men in the current regime and must be reckoned with in any international financial negotiations. Bela Sulyok, age approximately 45, married with two children, comes from a wealthy Jewish family named Schleifer. The date of his change of name is not known. He received a good education and joined the underground Hungarian Communist Party in the late twenties under the influence of his boyhood friend, Friss, one of the leading Hungarian Communists. Before the war, Sulyok was a minor employee of the Allgemeine Sparkasse (General Savings Bank), which in 1938 merged with the Hungarian General Credit Bank. After being dismissed for racial reasons, Sulyok had a few private accountant jobs and then was sent to compulsory labor camps where he suffered considerably. In 1945 Sulyok emerged as deputy general manager of the State Social Insurance Board or Institute which is under the Ministry of Public Welfare. He was appointed General Director of the Commercial Bank in January 1948 but left in May 1948 to become Deputy General Manager of the National Bank. As indicated above, he became Under Secretary of State for Finances in February 1949. His functions in the Ministry of Finance include those of foreign finance chief, formerly held by Kokes, administrative chief, and chief of the sections dealing with the National Bank and with internal credits. According to source, Sulyok is able to handle all his jobs effectively. Sulyok is a convinced Communist and apparently incorruptible. He believes in the need for smooth functioning of economic processes and therefore does not cause drastic personnel and organizational upheavals. He is extremely reasonable in all his dealings. Because his position in the Party hierarchy is solid, Sulyok is one of the few Hungarian Communists who can allow himself to take on bourgeois manners in conversation, clothing, and standard of living. He is free to do business in a "Western" manner and in spite of the fact that he is basically

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CENTRAL INTELLIGENCE AGENCY

25X1A

- 3 -

an unassuming man of simple habits, he flaunts his "Western" airs. This may cause foreigners dealing with him to underestimate his Communist loyalty. Sulyok is not a genius, but he is intelligent, and, above all, has a tremendous capacity for work spending 15 hours each day on the job.

Friss (mentioned above) also comes from a wealthy Jewish family. He became a Communist as a student, and in the thirties, went to Moscow. From 1945 to 1948 he was nominally chief of the Economic Research Department of the Hungarian Communist Party, but actually he was the financial power behind the scenes representing the Moscow point of view. He has returned to Moscow and his place has been taken by a twenty-six year old Communist named Szita.

6. Hungarian Foreign Exchange Situation

The main sources of foreign exchange of the Commercial Bank are exports of agricultural products to Great Britain and Switzerland. The main source for the National Bank are the proceeds from dealings with the JOINT which are not handled by the Commercial Bank. In this connection source states that discussions are in progress between the Hungarian Government and Israeli representatives regarding emigration permits. Jewish informants "reasonably" close to the negotiators told source that the Hungarians wanted between five and ten million dollars as "ransom" for approximately 25,000 Jews who wish to leave the country. The negotiations between Minister Gero and the Israeli Minister of Prague, Ichud Ariele, have broken down several times on this issue. This has had an adverse effect on commercial talks which parallel the emigration negotiations, but source knows of one deal for 17,000 tons of Israeli sugar which was completed.

7. Soviet Banks

All Hungarian trade with the Soviet Union is conducted by or through the Soviet-owned Bank for Commerce and Industry (Merkur), which authorizes the release of foreign exchange for imports connected with production vital to Soviet interests. Source believes that the Soviets desire a minimum output of consumer goods in Hungary and that the emphasis on heavy industry is not intended as a means of building up a supply point for the Soviet Union, but as a war potential for Hungary itself. The Soviets in any case are not importing heavy industry products from Hungary.

8. Foreign Holdings of the Hungarian Commercial Bank

Bela Sulyok, Under Secretary of State for Finances, and Havas, deputy manager of the Commercial Bank, are now in Switzerland attempting to effect the transfer of Commercial Bank holdings in Switzerland to the National Bank. The chief foreign assets of the Commercial Bank are 600 kilograms of pure gold belonging to the Swiss firm Haftug A.G., Tahlstrasse 11, Zurich, Switzerland, the directors of which are Dr. Max Schneider and Hans Munch. The gold is deposited with the Swiss Bankgesellschaft and the Swiss Creditanstalt, and the shares of the firm Haftug are controlled by the Hungarian Commercial Bank.

9. A certain Peter Katona, former employee of the Bank of the Danube Valley and now of the Hungarian Commercial Bank, and a Stephen Rocz of the Hungarian Commercial Bank, are also in Zurich now trying to effect transfer of 600 kilograms of gold to Dr. Wespi and Dr. Hugo Jeker, attorneys for the Hungarian Commercial Bank, which in turn will transfer the assets to the account of the Hungarian Commercial Bank.
10. In December 1948 the Hungarian Commercial Bank had control over five Swiss holding companies. Three of these holding companies were formerly the property of the Hungarian Discount and Exchange Bank: Vaga A.G., in Zurich; Velunga A.G. in Glarus; and Interzell A.G., also in Glarus. The Hungarian General Credit Bank had two holding companies whose names source cannot remember.

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